

MACKINAW CITY PUBLIC SCHOOLS
BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007

MACKINAW CITY PUBLIC SCHOOLS

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INDEPENDENT AUDITOR'S REPORT

September 17, 2007

Board of Education
Mackinaw City Public Schools
Mackinaw City, Michigan 49701

I have audited the accompanying basic financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Mackinaw City Public Schools as of and for the year ended June 30, 2007, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Mackinaw City Public Schools' management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinions.

In my opinion the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Mackinaw City Public Schools, as of June 30, 2007, and the respective changes in financial position, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated September 17, 2007 on my consideration of Mackinaw City Public Schools' internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of my audit.

The Management's Discussion and Analysis and budgetary comparison information on pages 3 through 6 and on 23 through 25 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Mackinaw City Public Schools' basic financial statements. The introductory section, and combining non-major fund financial statements, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining non-major fund financial statements have been subjected to the auditing procedures applied by me in the audit of the basic financial statements and, in my opinion, based on my audit are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in dark ink, appearing to read "T. Zick, CPA, P.C.", is positioned above the printed name.

THOMAS R. ZICK CPA, P.C.
CERTIFIED PUBLIC ACCOUNTANT

MACKINAW CITY PUBLIC SCHOOLS

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Management Discussion and Analysis, a requirement of GASB 34, is intended to be the Mackinaw City Public Schools District ("the District") Management's discussion and analysis of the financial results for the year ended June 30, 2007. The intent of this discussion and analysis is to provide a look at the district's performance and current position. Readers should also review the notes to the financial statements and financial statements to enhance their understanding of the district's financial performance.

FINANCIAL HIGHLIGHTS

The overall financial condition of the district remains strong. All goals related to financial activities have been met in the past year. If current revenue and expenditure patterns can be maintained, the resources for the following year will be available.

The assets of the Mackinaw City Public Schools District exceeded its liabilities at the close of the most recent fiscal year by \$1,225,606 (net assets).

The district's total net assets decreased by \$155,738 in the 2006/07 school year.

At the end of the current fiscal year, the fund balance for the District's General Fund is \$58,505 which exceeds legal limits.

USING THE ANNUAL REPORT

Generally accepted accounting principles (GAAP) according to GASB 34 requires the reporting of two types of financial statements: District Wide Financial Statements and Fund Financial Statements.

This annual report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand the District as a whole (government-wide statements), and then proceed to provide an increasingly detailed look at specific financial statements (fund financial statements). Also included are various notes to the financial statements. The audit also contains supplemental information in addition to the basic financial statements.

Reporting the District as a Whole – *The Statement of Net Assets and Statement of Activities*

One of the most important questions asked about the District's finances is, "Is the District better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the district as a whole and about its activities in a manner to help address this question. These statements include all assets and liabilities of the District using the accrual basis of accounting similar to the accounting used by the private sector. All of the current year's revenues and expenses are taken into consideration regardless of when cash is received or paid.

The two statements report the District's net assets and any changes in them. The change in net assets provides the reader a tool to assist in determining whether the District's financial health is improving or deteriorating. The reader will need to consider other non-financial factors such as property tax base, political conditions on a State level, student enrollment growth, quality of local service, and facility improvements prior to arriving at any conclusion regarding the overall health of the District.

Reporting the District's Most Significant Funds

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds, not the district as a whole. The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's "Accounting Manual". The two types of funds: governmental funds and fiduciary funds use different accounting approaches as further discussed in the notes to the financial statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Governmental Funds

Most of the District's activities are reported in the governmental funds, which focus on how money flows into and out of those funds and the balances left at year end that are available for future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and other financial assets that can be converted to cash. The governmental fund statements provide a detailed short-term view of the District's general operations and the basic services it provides. Governmental fund information helps you determine whether there are more or less financial resources available to spend in the near future to finance the District's programs. The relationship (or differences) between governmental funds is reconciled in the basic financial statements.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the District's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Table 1 provides a summary of the District's net assets as of June 30, 2007 and 2006.

TABLE 1 Governmental Activities

<u>Assets</u>	<u>06/30/07</u>	<u>06/30/06</u>
Current Assets	\$ 505,468	\$ 601,010
Noncurrent Assets	<u>1,013,111</u>	<u>1,049,585</u>
Total Assets	<u>\$ 1,518,579</u>	<u>\$ 1,650,595</u>
<u>Liabilities</u>		
Current Liabilities	\$ 247,741	\$ 252,074
Noncurrent Liabilities	<u>45,232</u>	<u>17,177</u>
Total Liabilities	<u>\$ 292,973</u>	<u>\$ 269,251</u>
<u>Net Assets</u>		
Invested in Capital Assets - Net of Debt	\$ 995,934	\$ 1,001,095
Restricted	192,741	207,329
Unrestricted	<u>36,931</u>	<u>172,920</u>
Total Net Assets	<u>\$ 1,225,606</u>	<u>\$ 1,381,344</u>

The District currently reports positive balances in each category of net assets.

The results of this year's operations for the District as a whole are represented in a statement of activities (Table 2), which shows the changes in net assets for the fiscal year 2007 and 2006.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

TABLE 2 Governmental Activities

	<u>06/30/07</u>	<u>06/30/06</u>
Program Revenues		
Charges for services	\$ 19,066	\$ 22,543
Operating grants and contributions	109,153	205,232
General Revenues		
Property taxes	2,179,478	1,982,559
State School Aid	68,535	-
Other	54,675	50,625
Total Revenues	\$ 2,430,907	\$ 2,260,959
Functions/Program Expenses		
Instruction	1,681,894	1,701,338
Supporting services	875,411	803,803
Food services	27,399	32,327
Interest on debt	1,941	3,690
Total Expenses	2,586,645	2,541,158
Change in Net Assets	\$ (155,738)	\$ (280,199)

As reported in the statement of activities the cost of all governmental activities for the year was \$2,586,645. While \$2,179,478 in revenue was generated directly from local taxpayers, another \$19,066 was generated through "charges for actual services" to local districts, or individuals that benefited directly from our services. State, federal, other regional grants and programs brought \$109,153 to the district. The district received \$68,535 in state education funding and just over \$54,675 in other miscellaneous sources, inclusive of investment earnings. Net assets for the year ending June 30, 2007 decreased by approximately \$155,738.

MAJOR GOVERNMENTAL FUNDS BUDGETING AND OPERATING HIGHLIGHTS

The District's budgets are prepared in accordance to Michigan Law. The most significant budgeted fund is the General Fund. During the fiscal year of 2006/07 the District amended the budgets of these major governmental funds twice. This has been the normal business practice of the district. Due to the timing of grant awards and pupil counts, the general fund budget will change significantly from the beginning to the end of the year. The district's actual expenditures were \$85,471 more than budgeted expenditures.

General Fund

The General Fund revenues were lower than expenditures in the past year of operations by \$103,699. In anticipation of the state education budget crises, the district must make cuts in operational areas in future years.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The District's assets have accumulated \$2,052,239 of depreciation. Our capitalized assets include our buildings, land, equipment and transportation fleet. This year saw a \$36,474 decrease in Net Capital Assets. A categorized listing of the assets is below.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

TABLE 3 Mackinaw City Public Schools District Capital Assets

	Balance <u>June 30, 2006</u>	<u>Additions</u>	<u>Disposals</u>	Balance <u>June 30, 2007</u>
Capital assets not being depreciated:				
Land	\$ 33,000	\$ -	\$ -	\$ 33,000
Capital assets being depreciated:				
Land improvements	483,210	5,000	-	488,210
Building and building improvements	1,915,130	50,046	-	1,965,176
Buses and other vehicles	174,985	-	-	174,985
Furniture and equipment	<u>401,133</u>	<u>2,846</u>	<u>-</u>	<u>403,979</u>
Subtotal	<u>2,974,458</u>	<u>57,892</u>	<u>-</u>	<u>3,032,350</u>
Accumulated depreciation:				
Land improvements	483,210	333	-	483,543
Building and building improvements	1,049,303	41,031	-	1,090,334
Buses and other vehicles	122,225	16,813	-	139,038
Furniture and equipment	<u>303,135</u>	<u>36,189</u>	<u>-</u>	<u>339,324</u>
Subtotal	<u>1,957,873</u>	<u>94,366</u>	<u>-</u>	<u>2,052,239</u>
Net capital assets being depreciated	<u>1,016,585</u>	<u>(36,474)</u>	<u>-</u>	<u>980,111</u>
Net governmental capital assets	<u>\$ 1,049,585</u>	<u>\$ (36,474)</u>	<u>\$ -</u>	<u>\$ 1,013,111</u>

Long Term Debt

The District owes \$17,177 on installment loans which will be paid over the next two years. Details are shown in Note 7 to the financial statements.

The District employees have accumulated sick days, which if paid in their entirety at June 30, 2007 would cost the district \$28,055.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The economy of the State of Michigan has dramatically slowed and forecasts project shortages in both the State's General Fund and the School Aid Fund for the upcoming year. The exact implications the shortages will have on the District are unknown. Our budgets were prepared with these factors in mind.

We previously were dependent on student counts for our foundation allowance, but our property tax revenue now exceeds the foundation so our revenue is primarily from the non-homestead property tax levy. The voters of the District approved a millage which eliminates the Headlee rollback for the 2006/07 fiscal year and 2007/08 years.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Mackinaw City Public Schools District's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

Superintendent, Mackinaw City Public Schools, 609 West Central; Mackinaw City, MI 49701 or call 231-436-8211.

MACKINAW CITY PUBLIC SCHOOLS
STATEMENT OF NET ASSETS
JUNE 30, 2007

	Governmental Activities
ASSETS	
Cash demand, time deposits, and investments	\$ 378,115
Receivables	
Other governments	83,045
Prepaid expenses	44,308
Capital assets	
Land	33,000
Other capital assets, net of depreciation	<u>980,111</u>
 TOTAL ASSETS	 <u>1,518,579</u>
 LIABILITIES	
Account payable	46,866
Accrued liabilities	200,875
Noncurrent liabilities:	
Due within one year	8,405
Due in more than one year	8,772
Compensated absences	<u>28,055</u>
 TOTAL LIABILITIES	 <u>292,973</u>
 NET ASSETS	
Invested in capital assets, net of related debt	995,934
Restricted for:	
Capital Projects	192,741
Unrestricted	<u>36,931</u>
 TOTAL NET ASSETS	 <u>\$ 1,225,606</u>

See Notes to Financial Statements

MACKINAW CITY PUBLIC SCHOOLS
STATEMENT OF ACTIVITIES
JUNE 30, 2007

Functions / Programs	Expenses	Program Revenues		Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	
Primary Government				
Governmental Activities				
Instruction	\$ 1,681,894	\$ -	\$ 94,595	\$ (1,587,299)
Support Services	812,502	-	3,930	(808,572)
Athletics	62,909	10,220	-	(52,689)
Food Service	27,399	8,846	10,628	(7,925)
Interest on Debt	<u>1,941</u>	<u>-</u>	<u>-</u>	<u>(1,941)</u>
Total Governmental Activities	<u>\$ 2,586,645</u>	<u>\$ 19,066</u>	<u>\$ 109,153</u>	<u>(2,458,426)</u>
General revenues:				
Taxes:				
Property taxes levied for general purposes				2,029,249
Property taxes levied for capital projects - sinking fund				101,998
Property taxes levied for special education through ESD				48,231
State Aid not restricted to specific purposes				68,535
Interest and investment earnings				39,656
Other				<u>15,019</u>
Total general revenues, contributions and transfers				<u>2,302,688</u>
Change in net assets				(155,738)
Net assets, beginning of year				<u>1,381,344</u>
Net assets, end of year				\$ 1,225,606

See Notes to Financial Statements

MACKINAW CITY PUBLIC SCHOOLS
BALANCE SHEET
JUNE 30, 2007

	GENERAL FUND	CAPITAL PROJECT FUND	OTHER FUNDS	TOTAL
ASSETS				
Cash and Investments	\$ 186,859	\$ 185,057	\$ 6,199	\$ 378,115
Receivables				
Accounts	-	-	-	-
Due From Other Funds	-	7,684	-	7,684
Prepaid Expenses	44,308	-	-	44,308
Due From Other Governmental Units	82,763	-	282	83,045
	<u>82,763</u>	<u>-</u>	<u>282</u>	<u>83,045</u>
TOTAL ASSETS	<u>\$ 313,930</u>	<u>\$ 192,741</u>	<u>\$ 6,481</u>	<u>\$ 513,152</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts Payable	\$ 46,866	\$ -	\$ -	\$ 46,866
Accrued Liabilities	200,875	-	-	200,875
Due to Other Funds	7,684	-	-	7,684
Due to Other Governmental Units	-	-	-	-
Deferred Revenue	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL LIABILITIES	<u>255,425</u>	<u>-</u>	<u>-</u>	<u>255,425</u>
FUND BALANCES				
Reserved	-	192,741	-	192,741
Unreserved	58,505	-	6,481	64,986
	<u>58,505</u>	<u>-</u>	<u>6,481</u>	<u>64,986</u>
TOTAL FUND BALANCES	<u>58,505</u>	<u>192,741</u>	<u>6,481</u>	<u>257,727</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 313,930</u>	<u>\$ 192,741</u>	<u>\$ 6,481</u>	<u>\$ 513,152</u>

See Notes to Financial Statements

MACKINAW CITY PUBLIC SCHOOLS
Reconciliation of Fund Balances on the Balance Sheet
for Governmental Funds to Net Assets of
Governmental Activities on the Statement of Net Assets
JUNE 30, 2007

Fund Balances - Total Governmental Funds	\$ 257,727
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Amounts reported for *governmental activities* in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Capital Assets - at Cost	3,065,350
Accumulated Depreciation	(2,052,239)

Certain liabilities such as bonds and notes payable are not due and payable in the current period and therefore are not reported in the governmental funds

Compensated Absences Payable	(28,055)
Installment Notes Payable	<u>(17,177)</u>

Net Assets of Governmental Activities	<u>\$ 1,225,606</u>
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See Notes to Financial Statements

**MACKINAW CITY PUBLIC SCHOOLS
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2007**

	GENERAL FUND	CAPITAL PROJECT FUND	OTHER FUNDS	TOTAL
REVENUES				
Local Sources	\$ 2,077,480	\$ 101,998	\$ 19,066	\$ 2,198,544
State Sources	98,466	-	3,275	101,741
Federal Sources	68,594	-	7,353	75,947
Interest Income	33,168	6,458	30	39,656
Other Revenue	15,019	-	-	15,019
TOTAL REVENUES	<u>2,292,727</u>	<u>108,456</u>	<u>29,724</u>	<u>2,430,907</u>
EXPENDITURES				
Current				
Instruction	1,586,926	-	-	1,586,926
Supporting Services	719,897	65,152	-	785,049
Athletic Events	-	-	62,909	62,909
Food Services	-	-	27,399	27,399
Capital Outlay	-	57,892	-	57,892
Debt Service:				
Principal	31,313	-	-	31,313
Interest and Other Charges	1,941	-	-	1,941
TOTAL EXPENDITURES	<u>2,340,077</u>	<u>123,044</u>	<u>90,308</u>	<u>2,553,429</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(47,350)</u>	<u>(14,588)</u>	<u>(60,584)</u>	<u>(122,522)</u>
OTHER FINANCING SOURCES (USES)				
Transfers In	-	-	56,349	56,349
Transfers (Out)	(56,349)	-	-	(56,349)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(56,349)</u>	<u>-</u>	<u>56,349</u>	<u>-</u>
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	<u>(103,699)</u>	<u>(14,588)</u>	<u>(4,235)</u>	<u>(122,522)</u>
FUND BALANCES, BEGINNING OF YEAR	<u>162,204</u>	<u>207,329</u>	<u>10,716</u>	<u>380,249</u>
FUND BALANCES, END OF YEAR	<u>\$ 58,505</u>	<u>\$ 192,741</u>	<u>\$ 6,481</u>	<u>\$ 257,727</u>

See Notes to Financial Statements

MACKINAW CITY PUBLIC SCHOOLS
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
FOR THE YEAR ENDED JUNE 30, 2007

Net Change in Fund Balances - Total Governmental Funds	\$ (122,522)
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Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add - Capital Outlay	57,892
Deduct - Depreciation Expense	(94,366)

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Add - Principal Payments on Long-term Liabilities	31,313
Less - Increase in Compensated Absences	<u>(28,055)</u>

Change in Net Assets of Governmental Activities	<u>\$ (155,738)</u>
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See Notes to Financial Statements

**MACKINAW CITY PUBLIC SCHOOLS
STATEMENT OF FIDUCIARY FUND NET ASSETS
AGENCY FUNDS
JUNE 30, 2007**

ASSETS

Cash	\$ 17,073
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TOTAL ASSETS	<u>\$ 17,073</u>
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LIABILITIES

Due to Student Groups	\$ 5,016
Scholarship Funds	<u>12,057</u>

TOTAL LIABILITIES	<u>\$ 17,073</u>
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See Notes to Financial Statements

**MACKINAW CITY PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Mackinaw City Public Schools conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the School District.

REPORTING ENTITY

The school district is governed by an elected seven-member Board of Education. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the School District's reporting entity, and which organizations are legally separate, component units of the School District. Based on the application of the criteria, the School District does not contain any component units.

DISTRICT-WIDE AND FUND FINANCIAL STATEMENTS

The district-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the School District's district-wide activities are considered governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments, and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the district-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

District-Wide Financial Statements - The district-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants, categorical aid, and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

As a general rule, the effect of interfund activity has been eliminated from the district-wide financial statements.

Amounts reported as program revenue include (1) charges to customers or applicants for goods, services, or privileges provided; and (2) operating grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes and unrestricted state aid.

**MACKINAW CITY PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Financial Statements – Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, unrestricted state aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the District.

Fiduciary fund statements are also reported using the economic resources measurement focus and the accrual basis of accounting. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

The School District reports the following major governmental funds:

General Fund - The General Fund is the School District's primary operating fund. It accounts for all financial resources of the School District, except those required to be accounted for in another fund.

Capital Project – Sinking Fund – The Fund is used to record tax, interest, and other revenue for the payment of capital project type expenditures.

Additionally, the District reports the following governmental types:

Special Revenue Funds - Special Revenue Funds are governmental funds used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes. The District's Special Revenue Funds include the Food Service and Athletics Funds. Any operating deficit generated by these activities is the responsibility of the General Fund.

Fiduciary Funds – The School District maintains an Agency Fund to record the transactions of student groups for school and school-related purposes. The funds are segregated and held in trust for the students.

ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY

Cash and Investments – Cash and investments include cash on hand, demand deposits, and savings accounts.

Receivables and Payables – In general, outstanding balances between funds are reported as “due to/from other funds.”

All trade and property tax receivables are shown net of an allowance for uncollectible amounts. The School District considers all receivables to be fully collectible; accordingly, no allowance for uncollectible amounts is recorded. Property taxes are assessed as of July 1. These taxes are due on February 14 with the final collection date of February 28 before they are added to the county delinquent tax rolls. The County operates a delinquent tax revolving fund and normally pays to the District all current taxes annually prior to June 30.

**MACKINAW CITY PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Restricted Fund Balance – The fund balance in the Capital Projects Fund is shown as a restricted fund balance. This balance can only be used to purchase capital outlay type items related to land and building and to provide for major repairs.

Capital Assets – Capital assets, which include land, buildings, equipment, and vehicles, are reported in the applicable governmental column in the district-wide financial statements. Capital assets are defined by the School District as assets with an initial individual cost of more than \$500 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset life are not capitalized. The School District does not have infrastructure-type assets.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings, building additions, and land improvements	10-50 years
Buses and other vehicles	7-15 years
Furniture and other equipment	2-15 years

Long-Term Obligations – In the district-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the statement of net assets.

Fund Equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information – Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America and state law for the general and special revenue funds. All annual appropriations lapse at the fiscal year end.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. State law requires the School District to have its budget in place by July 1. Expenditures in excess of amounts budgeted are a violation of Michigan law. State law permits districts to amend their budgets during the year.

Excess Expenditures Over Appropriations in Budgeted Funds - The School District is required under Public Act 621 of 1978 to adopt (pass) a budget (General Appropriations Act) for the General Fund and Individual Special Revenue Funds. The District complied in all areas except the following expenditure areas which exceeded budgeted amounts:

MACKINAW CITY PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

<u>Fund / Function</u>	<u>Final Budget</u>	<u>Actual Expenditures</u>	<u>Budget Variance</u>
General Fund:			
Elementary	\$ 668,300	\$ 718,941	\$ (50,641)
Readiness	\$ 16,575	\$ 16,623	\$ (48)
Secondary	\$ 695,944	\$ 723,372	\$ (27,428)
Special Education	\$ 68,333	\$ 73,790	\$ (5,457)
Title I	\$ 48,471	\$ 54,200	\$ (5,729)
Guidance/Counseling	\$ 15,223	\$ 15,601	\$ (378)
Substitute Teachers	\$ 23,851	\$ 23,943	\$ (92)
Board of Education	\$ 10,552	\$ 10,876	\$ (324)
Plant Operation and Maintenance	\$ 196,953	\$ 209,339	\$ (12,386)
Pupil Transportation	\$ 62,964	\$ 64,624	\$ (1,660)
Other Services	\$ 10,471	\$ 14,918	\$ (4,447)
Interest	\$ 845	\$ 1,941	\$ (1,096)
Outgoing Transfer Out			
Food Service Fund	\$ 7,000	\$ 7,317	\$ (317)
Special Revenue:			
Athletic Fund	\$ 60,577	\$ 62,909	\$ (2,332)
Food Service Fund	\$ 25,100	\$ 27,399	\$ (2,299)

NOTE 3 - CASH AND INVESTMENTS

The captions on the combined balance sheet related to cash and investments are as follows:

	<u>Cash/checking</u>			
	<u>Imprest Cash</u>	<u>and Savings</u>	<u>Investments</u>	<u>Total</u>
Government Activities	\$ 185	\$ 99,930	\$ 278,000	\$ 378,115
Agency Funds	-	17,073	-0-	17,073
	<u>\$ 185</u>	<u>\$ 117,003</u>	<u>\$ 278,000</u>	<u>\$ 395,188</u>

Deposits - At year-end, the carrying amount of the District's deposits was \$117,003 and the bank balance was \$237,931 classified as to risk as follows. Outstanding checks net of deposits in transit were \$120,928.

Insured	\$ 32,623
Uninsured – Uncollateralized	84,380
	<u>\$ 117,003</u>

Investments, totaling \$278,000, were all in a municipal investment fund with National City Bank. This fund is uninsured and is a mutual fund with a share price of \$1 that does not vary with market fluctuations.

Investments – Act 217, PA 1982, authorized the School District to deposit and invest in the following:

- a. Bonds, bills, and other direct obligations of the United States or its agencies.
- b. Certificates of deposit and other savings instruments issued by a federally insured bank, savings and loan or credit union maintaining an office in Michigan.
- c. Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.

MACKINAW CITY PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 3 - CASH AND INVESTMENTS (CONTINUED)

- d. Mutual Funds comprised of investments that are legal for direct investment by local units of government in Michigan.
- e. U.S. Government or federal agency obligation repurchase agreements.

Credit Risk

State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's).

Interest Rate Risk

The School District has not adopted a policy that indicates how the District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by limiting the weighted average maturity of its investment portfolio to less than a given period of time. The District has no investments other than the National City Municipal Investment Fund.

Concentration of Credit Risk

The District has not adopted a policy that indicates how the District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. The District has no investments other than the National City Municipal Investment Fund.

Custodial Credit Risk

The District has not adopted a policy that indicates how the District will minimize custodial credit risk, which is the risk that in the event of the failure of the counterparty, the District will not be able to recover the value of its investments of collateral securities that are in possession of an outside party. The District has no investments other than the National City Municipal Investment Fund.

The Board of Education is authorized to designate depositories for District funds, and the funds are invested in accordance with State of Michigan statutory authority.

NOTE 4 – RECEIVABLES

Receivables as of year-end for the School District's individual major funds and the other nonmajor governmental funds are as follows:

	<u>General</u>	<u>Other Funds</u>
Receivables		
State of Michigan	\$ 78,346	\$ 282
Other Governments	313	-0-
Taxes	4,104	-0-
Net Receivables	<u>\$ 82,763</u>	<u>\$ 282</u>

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, there was no deferred revenue.

MACKINAW CITY PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 5 – INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The composition of interfund balances is as follows:

Due to/From Other Funds

<u>Receivable Fund</u>		<u>Payable Fund</u>	
Capital Project Fund	\$ 7,684	General Fund	\$ 7,684
Total	<u>\$ 7,684</u>		<u>\$ 7,684</u>
Transfers In/Out	<u>Transfer In</u>	<u>Transfer Out</u>	<u>Total</u>
General Fund	\$ 0	\$ (56,349)	\$ (56,349)
Special Revenue:			
Food Service Fund	7,317	0	7,317
Athletics	<u>49,032</u>	<u>0</u>	<u>49,032</u>
Total	<u>\$ 56,349</u>	<u>\$ (56,349)</u>	<u>\$ 0</u>

NOTE 6 – CAPITAL ASSETS

Capital asset activity of the School District's governmental activities was as follows:

	<u>Balance</u> <u>June 30, 2006</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>June 30, 2007</u>
Capital assets not being depreciated:				
Land	\$ 33,000	\$ -	\$ -	\$ 33,000
Capital assets being depreciated:				
Land improvements	483,210	5,000	-	488,210
Building and building improvements	1,915,130	50,046	-	1,965,176
Buses and other vehicles	174,985	-	-	174,985
Furniture and equipment	<u>401,133</u>	<u>2,846</u>	<u>-</u>	<u>403,979</u>
Subtotal	<u>2,974,458</u>	<u>57,892</u>	<u>-</u>	<u>3,032,350</u>
Accumulated depreciation:				
Land improvements	483,210	333	-	483,543
Building and building improvements	1,049,303	41,031	-	1,090,334
Buses and other vehicles	122,225	16,813	-	139,038
Furniture and equipment	<u>303,135</u>	<u>36,189</u>	<u>-</u>	<u>339,324</u>
Subtotal	<u>1,957,873</u>	<u>94,366</u>	<u>-</u>	<u>2,052,239</u>
Net capital assets being depreciated	<u>1,016,585</u>	<u>(36,474)</u>	<u>-</u>	<u>980,111</u>
Net governmental capital assets	<u>\$ 1,049,585</u>	<u>\$ (36,474)</u>	<u>\$ -</u>	<u>\$ 1,013,111</u>

MACKINAW CITY PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 6 – CAPITAL ASSETS (CONTINUED)

Depreciation expense was charged to activities of the School District as follows:

Governmental activities:

Instruction	\$ 77,553
Support services	<u>16,813</u>
Total	<u>\$ 94,366</u>

NOTE 7 - LONG-TERM DEBT

The following is a summary of debt transactions of the School District for the Year ended June 30, 2007:

	<u>Installment</u>	<u>Total</u>
Payable at July 1, 2006	\$ 48,490	\$ 48,490
Principal payments:		
Contracts	<u>(31,313)</u>	<u>(31,313)</u>
Payable at June 30, 2007	<u>\$ 17,177</u>	<u>\$ 17,177</u>

<u>Description</u>	<u>Interest Rate</u>	<u>Maturity Year</u>	<u>Outstanding 6/30/07</u>		
			<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Bus contract	4.35%	2008	17,177	1,127	18,304
Total			<u>\$ 17,177</u>	<u>\$ 1,127</u>	<u>\$ 18,304</u>

INSTALLMENT PURCHASE AGREEMENT

During the fiscal year ended June 30, 2003 the District purchased a Bluebird bus on an installment purchase contract. The contract is with the Bluebird Company. The District financed \$49,500 over 6 years. The first payment was due September 8, 2003 and the note matures on September 8, 2008. Payments are due annually throughout the life of the agreement. Interest is 4.35% per annum. The following schedule details the payments due:

	<u>2007/08</u>	<u>2008/09</u>	<u>Total</u>
Principal	\$ 8,405	\$ 8,772	\$ 17,177
Interest	<u>747</u>	<u>380</u>	<u>1,127</u>
Total	<u>\$ 9,152</u>	<u>\$ 9,152</u>	<u>\$ 18,304</u>

During the fiscal year ended June 30, 2003 the District funded technology purchases with an installment loan from the vendor and National City Bank. This was paid in full during 2006/07.

The annual requirements to amortize all applicable debt outstanding as of June 30, 2007, including interest payments of \$1,127 are as follows:

Annual Debt Service Requirements:

	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007/08	8,405	747	9,152
2008/09	<u>8,772</u>	<u>380</u>	<u>9,152</u>
Total	<u>\$ 17,177</u>	<u>\$ 1,127</u>	<u>\$ 18,304</u>

**MACKINAW CITY PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007**

NOTE 8 - DEFINED BENEFIT PENSION PLAN

All District full-time employees participate in the Michigan Public School Employees' Retirement System, ("System"), a cost-sharing multiple-employer public employee retirement system. The Michigan Public School Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the system at 7150 Harris Drive, P.O. Box 30673, Lansing, MI 48909-8103.

All full-time employees of the District are required by law to participate in the System. All benefits vest after 10 years of service. Basic plan members may retire at age 55 with 30 years of credited service, or at age 60 with 10 or more years of credited service. A Member Investment Plan (MIP) member may retire at any age with 30 years of credited service or at age 60 with 5 years of service. Both basic and MIP plan members may retire at age 55 with 15 years of service and receive reduced early retirement benefits. Benefits are paid monthly over the member's or survivor's lifetime and are equal to 1.5% of the member's final average compensation times the member's years of credited service. The final average compensation period for basic members is 60 consecutive months and for MIP members is 36 consecutive months. The system also provides health, dental and vision insurance coverage for retirees.

Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute at a permanently fixed rate of 3.9% of gross wages. Members first hired January 1, 1990 or later contribute at various rates depending on school fiscal year compensation. Basic plan members make no contributions. The District was required to contribute 17.74% of participant's salary to the System for the fiscal year ended 6/30/06, and the State of Michigan is responsible for any further contributions necessary to keep the fund actuarially sound. The School District's contributions to the MPSERS plan for the years ended June 30, 2007 2006, and 2005 were \$223,508, \$216,380, and \$190,445.

Post-Employment Benefits

Under the MPSERS Act, all retirees have the option of continuing health, dental and vision coverage. In prior years the State pre-funded these benefits using the entry age actuarial cost method. Retirees having this coverage contribute an amount equivalent to the monthly cost for Part B Medicare and 10% of the monthly premium amount for the health, dental and vision coverage. These contributions are deducted from the retirees monthly pension. No additional contributions are required from the District on these post-employment benefits. The 17.74% noted above includes these costs.

NOTE 9 - RISK MANAGEMENT

The School District participates in the MASB-SEG Property and Casualty Pool and Workers Compensation Pool.

The MASB-SEG Property/Casualty Pool, Inc. was created on May 23, 1985 and organized under Public Act 138 of 1982 as amended, as a governmental group property and casualty self-insurance pool. Approximately 375 educational institutions within the State of Michigan participate in the Pool.

The Pool limits the maximum net loss that may arise from large risks or in concentrated areas of exposure by reinsuring certain levels of risks with other insurers or reinsurers. The Pool purchases excess liability coverage from one or more insurers or reinsurers to provide 100 percent coverage at each insured level.

The District has its vehicle insurance with a private insurance carrier.

**MACKINAW CITY PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007**

NOTE 10 – SINKING FUND EXPENDITURES

During the year ended June 30, 2007 the District spent \$123,044 in sinking fund revenues on projects that qualify under MCL 380.1212 as follows:

Building repair/replacement	\$ 112,005
Other repairs	<u>11,039</u>
	<u><u>\$ 123,044</u></u>

REQUIRED SUPPLEMENTARY INFORMATION

**MACKINAW CITY PUBLIC SCHOOLS
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, OTHER SOURCES (USES)
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2007**

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
REVENUES				
Local Sources	\$ 2,139,833	\$ 2,139,833	\$ 2,125,667	\$ (14,166)
State Sources	70,000	70,000	98,466	28,466
Federal Sources	<u>66,000</u>	<u>66,000</u>	<u>68,594</u>	<u>2,594</u>
TOTAL REVENUES	<u>2,275,833</u>	<u>2,275,833</u>	<u>2,292,727</u>	<u>16,894</u>
EXPENDITURES				
Current:				
Instruction:				
Basic programs	1,364,138	1,380,819	1,458,936	(78,117)
Added Needs	134,956	116,804	127,990	(11,186)
Support Services:				
Student Services	30,559	64,681	61,747	2,934
General Administration	301,463	312,566	304,387	8,179
Maintenance	211,435	196,953	209,339	(12,386)
Transportation	59,214	62,964	64,624	(1,660)
Other Services	11,300	10,471	14,918	(4,447)
Technology	46,000	54,253	54,253	-
Tuition	20,000	10,630	10,629	1
Capital Outlay	-	-	-	-
Principal	35,000	32,412	31,313	1,099
Interest	<u>-</u>	<u>845</u>	<u>1,941</u>	<u>(1,096)</u>
TOTAL EXPENDITURES	<u>2,214,065</u>	<u>2,243,398</u>	<u>2,340,077</u>	<u>(96,679)</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>61,768</u>	<u>32,435</u>	<u>(47,350)</u>	<u>(79,785)</u>
OTHER FINANCING (USES)				
Transfers (Out)	<u>(60,557)</u>	<u>(67,557)</u>	<u>(56,349)</u>	<u>11,208</u>
TOTAL OTHER FINANCING (USES)	<u>(60,557)</u>	<u>(67,557)</u>	<u>(56,349)</u>	<u>11,208</u>
REVENUES AND OVER (UNDER) EXPENDITURES AND OTHER USES	<u>1,211</u>	<u>(35,122)</u>	<u>(103,699)</u>	<u>(68,577)</u>
FUND BALANCES, BEGINNING OF YEAR	<u>165,000</u>	<u>165,000</u>	<u>162,204</u>	<u>(2,796)</u>
FUND BALANCES, END OF YEAR	<u>\$ 166,211</u>	<u>\$ 129,878</u>	<u>\$ 58,505</u>	<u>\$ (71,373)</u>

See Notes to Financial Statements

**MACKINAW CITY PUBLIC SCHOOLS
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND OTHER SOURCES (USES)
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2007**

	<u>BUDGETED AMOUNT</u>			VARIANCE WITH
	<u>ORIGINAL</u>	<u>FINAL</u>	<u>ACTUAL</u>	<u>FINAL BUDGET</u>
LOCAL SOURCES				
Taxes and Penalties	\$ 2,034,833	\$ 2,034,833	\$ 2,029,249	\$ (5,584)
Interest Income	45,000	45,000	33,168	(11,832)
Miscellaneous Income	-	-	15,019	15,019
Incoming Transfers ISD	<u>60,000</u>	<u>60,000</u>	<u>48,231</u>	<u>(11,769)</u>
TOTAL LOCAL SOURCES	<u>2,139,833</u>	<u>2,139,833</u>	<u>2,125,667</u>	<u>(14,166)</u>
STATE SOURCES				
Categorical State Aid	70,000	70,000	97,981	27,981
Incoming Transfers ISD	<u>-</u>	<u>-</u>	<u>485</u>	<u>485</u>
TOTAL STATE SOURCES	<u>70,000</u>	<u>70,000</u>	<u>98,466</u>	<u>28,466</u>
FEDERAL SOURCES				
Title I	40,000	40,000	29,607	(10,393)
Title II A	-	-	12,853	12,853
Title V	-	-	473	473
Improving Teacher Quality	-	-	304	304
Service provider self-review	-	-	1,034	1,034
REAP Grant	26,000	26,000	22,689	(3,311)
Incoming Transfers ISD & Other	<u>-</u>	<u>-</u>	<u>1,634</u>	<u>1,634</u>
TOTAL FEDERAL SOURCES	<u>66,000</u>	<u>66,000</u>	<u>68,594</u>	<u>2,594</u>
TOTAL REVENUE	<u>\$ 2,275,833</u>	<u>\$ 2,275,833</u>	<u>\$ 2,292,727</u>	<u>\$ 16,894</u>
EXPENDITURES				
INSTRUCTION				
Basic Programs:				
Elementary	\$ 631,815	\$ 668,300	\$ 718,941	\$ (50,641)
Readiness	37,650	16,575	16,623	(48)
Secondary	<u>694,673</u>	<u>695,944</u>	<u>723,372</u>	<u>(27,428)</u>
Total Basic Programs	<u>1,364,138</u>	<u>1,380,819</u>	<u>1,458,936</u>	<u>(78,117)</u>
Added Needs:				
Special Education	61,256	68,333	73,790	(5,457)
Title I	48,800	48,471	54,200	(5,729)
At Risk	<u>24,900</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Added Needs	<u>134,956</u>	<u>116,804</u>	<u>127,990</u>	<u>(11,186)</u>
TOTAL INSTRUCTION	<u>1,499,094</u>	<u>1,497,623</u>	<u>1,586,926</u>	<u>(89,303)</u>

See Notes to Financial Statements

**MACKINAW CITY PUBLIC SCHOOLS
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND OTHER SOURCES (USES)
BUDGET AND ACTUAL (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2007**

	<u>BUDGETED AMOUNT</u>			VARIANCE WITH
	<u>ORIGINAL</u>	<u>FINAL</u>	<u>ACTUAL</u>	<u>FINAL BUDGET</u>
SUPPORTING SERVICES				
Student Services:				
Guidance/Counseling	\$ 400	\$ 15,223	\$ 15,601	\$ (378)
Substitute Teachers	14,000	23,851	23,943	(92)
Health Services	5,467	5,945	5,945	-
Student Activity	10,482	19,484	16,081	3,403
Library	110	127	127	-
Audio-Visual	100	51	50	1
	<u>30,559</u>	<u>64,681</u>	<u>61,747</u>	<u>2,934</u>
Total Student Services				
General Administration:				
Board of Education	10,552	10,552	10,876	(324)
Executive Administration	200,018	215,039	206,537	8,502
Office of Principal	90,893	86,975	86,974	1
	<u>301,463</u>	<u>312,566</u>	<u>304,387</u>	<u>8,179</u>
Total General Administration				
Plant Operation and Maintenance	211,435	196,953	209,339	(12,386)
Pupil Transportation	59,214	62,964	64,624	(1,660)
Other Services	11,300	10,471	14,918	(4,447)
Technology	46,000	54,253	54,253	-
Tuition	20,000	10,630	10,629	1
Capital Outlay	-	-	-	-
Principal	35,000	32,412	31,313	1,099
Interest	-	845	1,941	(1,096)
	<u>714,971</u>	<u>745,775</u>	<u>753,151</u>	<u>(7,376)</u>
TOTAL SUPPORTING SERVICES				
OUTGOING TRANSFERS				
Food Service Fund	-	7,000	7,317	(317)
Athletics Fund	60,557	60,557	49,032	11,525
	<u>60,557</u>	<u>67,557</u>	<u>56,349</u>	<u>11,208</u>
TOTAL OUTGOING TRANSFERS				
TOTAL EXPENDITURES AND TRANSFERS OUT	<u>\$ 2,274,622</u>	<u>\$ 2,310,955</u>	<u>\$ 2,396,426</u>	<u>\$ (85,471)</u>

See Notes to Financial Statements

OTHER SUPPLEMENTARY INFORMATION

**MACKINAW CITY PUBLIC SCHOOLS
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2007**

	<u>SPECIAL REVENUE FUNDS</u>		
	<u>ATHLETIC FUND</u>	<u>FOOD SERVICE FUND</u>	<u>TOTAL</u>
ASSETS			
Cash	\$ 1,694	\$ 4,505	\$ 6,199
Receivables:			
Due From Other Funds	-	-	-
Due From Other Governmental Units	<u>-</u>	<u>282</u>	<u>282</u>
 TOTAL ASSETS	 <u>\$ 1,694</u>	 <u>\$ 4,787</u>	 <u>\$ 6,481</u>
 LIABILITIES AND FUND EQUITY			
LIABILITIES			
Accounts Payable	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
 TOTAL LIABILITIES	 <u>-</u>	 <u>-</u>	 <u>-</u>
 FUND BALANCE			
Reserved	1,694	4,787	6,481
Unreserved	<u>-</u>	<u>-</u>	<u>-</u>
 TOTAL FUND BALANCES	 <u>1,694</u>	 <u>4,787</u>	 <u>6,481</u>
 TOTAL LIABILITIES AND FUND BALANCES	 <u><u>\$ 1,694</u></u>	 <u><u>\$ 4,787</u></u>	 <u><u>\$ 6,481</u></u>

See Notes to Financial Statements

MACKINAW CITY PUBLIC SCHOOLS
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2007

	<u>SPECIAL REVENUE FUNDS</u>		
	<u>ATHLETIC FUND</u>	<u>FOOD SERVICE FUND</u>	<u>TOTAL</u>
REVENUES			
Local Sources	\$ 10,220	\$ 8,846	\$ 19,066
Interest	14	16	30
State Sources	-	3,275	3,275
Federal Sources	-	7,353	7,353
TOTAL REVENUES	<u>10,234</u>	<u>19,490</u>	<u>29,724</u>
EXPENDITURES			
Current			
Athletics	62,909	-	62,909
Food Service	-	27,399	27,399
TOTAL EXPENDITURES	<u>62,909</u>	<u>27,399</u>	<u>90,308</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(52,675)</u>	<u>(7,909)</u>	<u>(60,584)</u>
OTHER FINANCING SOURCES (USES)			
Transfers In	49,032	7,317	56,349
TOTAL OTHER FINANCING SOURCES (USES)	<u>49,032</u>	<u>7,317</u>	<u>56,349</u>
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER (USES)	(3,643)	(592)	(4,235)
FUND BALANCES, BEGINNING OF YEAR	<u>5,337</u>	<u>5,379</u>	<u>10,716</u>
FUND BALANCES, END OF YEAR	<u>\$ 1,694</u>	<u>\$ 4,787</u>	<u>\$ 6,481</u>

See Notes to Financial Statements



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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

September 17, 2007

Board of Education
Mackinaw City Public Schools
Mackinaw City, Michigan 49701

I have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Mackinaw City Public Schools as of and for the year ended June 30, 2007, which collectively comprise the Mackinaw City Public Schools' basic financial statements and have issued my report thereon dated September 17, 2007. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered Mackinaw city Public Schools' internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of internal control over financial reporting. Accordingly, I do not express an opinion of the effectiveness of Mackinaw city Public Schools' internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Mackinaw city Public Schools' ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Mackinaw city Public Schools' financial statements that is more than inconsequential will not be prevented or detected by Mackinaw city Public Schools' internal control. The District's internal reporting comparing budgets to actual is not adequate to assure compliance with P.A. 621. Year end budget overages are excessive and closer monitoring is needed when the General Fund balance is at its present level. This issue I believe is a significant deficiency. In addition, District personnel are not able to prepare the financial statements in accordance with generally accepted accounting principles which, under Statement on auditing Standards No. 112 indicates a significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Mackinaw city Public Schools' internal control.

My consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, I believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Mackinaw city Public Schools' financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

I noted other immaterial instances of noncompliance and control issues that I have reported to management of Mackinaw city Public Schools in a separate letter dated September 17, 2007.

This report is intended solely for the information and use of management, federal awarding agencies, pass-through entities, the Michigan Department of Education, and Michigan Department of Treasury and is not intended to be and should not be used by anyone other than these specified parties.



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FINANCIAL AUDIT COMMENTS

September 17, 2007

Board of Education
Mackinaw City Public Schools
Mackinaw City, Michigan 49701

I have audited the basic financial statements of Mackinaw City Public Schools, Mackinaw City, Michigan, for the year ended June 30, 2007 and have issued my report thereon dated September 17, 2007.

I have conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement.

In planning and performing my audit of the basic financial statements of Mackinaw City Public Schools, Mackinaw City, Michigan, for the year ended June 30, 2007, I obtained an understanding of the internal control structure. With respect to the internal control structure, I obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and I assessed control risk in order to determine my auditing procedures for the purpose of expressing my opinion on the basic financial statements and not to provide an opinion on the internal control structure. Accordingly, I do not express such an opinion.

In addition to the items noted in the Report on Internal Control Over Financial Reporting and Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*, I noted other matters involving the internal control structure and its operation that I bring to your attention as follows:

BUDGETS

Public Act 621 of 1978, as amended, provides that a School district shall not incur expenditures in excess of the amount appropriated. In the body of the financial statements, the School district's actual expenditures and budgeted expenditures for the General fund has been shown on a functional basis. The approved budget of the School district for the General fund was adopted on an activity and/or program level. During the year ended June 30, 2007 the School District incurred functional expenditures that exceeded the budget as follows:

<u>Fund / Function</u>	<u>Final Budget</u>	<u>Actual Expenditures</u>	<u>Budget Variance</u>
General Fund:			
Elementary	\$ 668,300	\$ 718,941	\$ (50,641)
Readiness	\$ 16,575	\$ 16,623	\$ (48)
Secondary	\$ 695,944	\$ 723,372	\$ (27,428)
Special Education	\$ 68,333	\$ 73,790	\$ (5,457)
Title I	\$ 48,471	\$ 54,200	\$ (5,729)
Guidance/Counseling	\$ 15,223	\$ 15,601	\$ (378)
Substitute Teachers	\$ 23,851	\$ 23,943	\$ (92)
Board of Education	\$ 10,552	\$ 10,876	\$ (324)
Plant Operation and Maintenance	\$ 196,953	\$ 209,339	\$ (12,386)
Pupil Transportation	\$ 62,964	\$ 64,624	\$ (1,660)
Other Services	\$ 10,471	\$ 14,918	\$ (4,447)
Interest	\$ 845	\$ 1,941	\$ (1,096)
Outgoing Transfer Out			
Food Service Fund	\$ 7,000	\$ 7,317	\$ (317)
Special Revenue:			
Athletic Fund	\$ 60,577	\$ 62,909	\$ (2,332)
Food Service Fund	\$ 25,100	\$ 27,399	\$ (2,299)

Care should be taken in future years to assure the budgets are amended prior to the year end to insure budget overages do not occur. The District exceeded its General Fund budget in total by \$85,471.

The budget responsibility reports available from your computer system are excellent tools for both the administration and the board to evaluate the District's financial performance throughout the year. To be complete both revenue and expenditure data needs to be input and amended as needed. These budget numbers can then be compared with the actual results on a monthly basis. I feel this report must be used as a regular monthly report in order to accurately monitor the budget. The budget reports should show revenues, expenditures, and estimated surplus or deficit in order to properly monitor the budget on an on-going basis.

PROPERTY TAX REVENUE

Now that the district no longer receives foundation allowance State aid, monitoring the tax collection process is extremely important. Any lost revenue from tax tribunal adjustments will come directly from your revenue. Homestead denials will directly increase your revenue, so a monthly reconciliation of the taxable value should be done. This will require monthly monitoring of the taxable values and reconciliations of prior year State aid adjustments, if any.

The millage rate approved by your voters is 18 mills however the maximum amount you can levy under Proposal A is 17.7634. For the 2006/07 year you levied 18 mills which will require an adjustment in the 2008/09 levy. You have also levied 18 mills for 2007/08 which is currently being collected. This will also have to be corrected in the 2008/09 levy year. For 2006/07 the over levied amount is approximately \$27,500.

FUND BALANCE

The following schedule shows the general fund annual deficit and ending fund balance for the past five years:

Fiscal Year Ending	Annual Surplus (deficit)	Ending Fund Balance
6/30/03	\$ (39,744)	\$ 934,213
6/30/04	\$ (217,610)	\$ 716,603
6/30/05	\$ (235,519)	\$ 481,084
6/30/06	\$ (318,880)	\$ 162,204
6/30/07	\$ (103,699)	\$ 58,505

The board and management need to closely evaluate the 2007/08 budget and make cuts where appropriate in order to stop the deficit funding and maintain an adequate fund balance.

FEDERAL PROGRAMS

The consolidated application for federal programs for the 2006/07 school year was not submitted until October 13, 2006. The application must be submitted prior to incurring any expenditures. A date prior to the start of school would be best.

During the current fiscal year all of the Federal funds were not requested by June 30, 2007 even though the expenditures had been incurred. In excess of \$10,000 was requested late in August.

SINKING FUND EXPENDITURES

Lighting upgrades, which are qualified expenditures in the Sinking Fund, were not bid by the District. The total cost was in excess of \$50,000, however, the work was done in different segments. None of the segments individually exceeded the \$19,563 bid requirement.

I also noted several expenditures which did not qualify as sinking expenditures. The General Fund was charged with those expenditures and corrections were made through journal entries. In the future, use of the Michigan Department of Treasury Sinking Fund Determination Letters, a copy of which I provided to your Superintendent, will help alleviate those problems in future years.

CREDIT CARD EXPENDITURES

During the audit I reviewed various expenditures and noted several unsupported items paid for by using the District credit card. Several expenditures paid for by credit card had invoices attached but no explanation of who incurred the expense nor what it was for. The amount of these expenditures was relatively small, however, I feel better control over these expenditures is necessary and proper documentation should be attached to each paid bill. Proper documentation would include date, who incurred expense, who was in attendance, purpose for expenditure, etc.

This report is intended solely for the information and use of the Mackinaw City Public Schools management, Board of Education, the Michigan Departments of Treasury and Education, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.



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